

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 DODE-00 PM-04 H-02 L-03

NSC-05 PA-01 PRS-01 SS-15 STR-04 AGR-05 HEW-04 FEA-01

INT-05 /103 W

----- 034451

R 142036Z MAY 76

FM AMEMBASSY BUENOS AIRES

TO SECSTATE WASHDC 5664

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E.O. 11652: N/A

TAGS: EFIN, EGEN, AR

SUBJECT: ECONOMIC SECRETARY GUILLERMO KLEIN TALKS ON GOA
ECONOMIC POLICY

REF: BUENOS AIRES 3103

1. LAST NIGHT, MAY 13, SECRETARY OF PROGRAMMING AND COORDINATION
GUILLERMO WALTER KLEIN SPOKE TO NATION ON GOA ECONOMIC PROGRAM
AND ITS IMPLICATIONS. HIGHLIGHTS AS FOLLOWS:

2. INFLATION. KLEIN SAID CONTAINING INFLATION WAS TOP PRIORITY.
HE POINTED OUT "ECONOMY OF PRODUCTION" NOT POSSIBLE UNLESS
INFLATION SLOWED AND ADDED INFLATION MUST BE HALTED IN NAME
OF JUSTICE BECAUSE ITS BURDEN FALLS MOST HEAVILY ON POOR.
TO FIGHT INFLATION, KLEIN SAID GOA WOULD REDUCE UNPRO-
DUCTIVE PUBLIC EXPENDITURES, INCREASE TAX REVENUES, AND
PROVIDE MORE ORDERLY CREDIT AMONG OTHER MEASURES. HE ADMITTED
MEASURES INITIALLY COULD HAVE RECESSIVE IMPACT, AND EMPHASIZED
IMPORTANCE MAINTAINING REAL INCOME AT TOLERABLE LEVELS.

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3. SALARIES. KLEIN SAID UNTIL NEW ECONOMIC MEASURES TOOK

EFFECT, SALARIES WOULD HAVE TO REMAIN DEPRESSED. THIS WOULD BE SACRIFICE ASKED OF WORKING CLASS. GOA DECISION CENTRALIZE SALARY CONTROL TAKEN TO END CLASH OF PRIVILEGED SECTORS OVER INCOME DISTRIBUTION WHICH DRIVING UP PRICES AND ADVERSELY AFFECTING ECONOMY.

4. PRICES. KLEIN SAID GOA HAD ELIMINATED PRICE CONTROLS BECAUSE THEY CREATED BLACK MARKET AND SPECULATION AND BECAUSE GOVT. DIDN'T HAVE POWER ENFORCE THEM ANYWAY. MAIN PURPOSE PRICE LIBERALIZATION, HE SAID, WAS TO ENCOURAGE INVESTMENT, THUS CREATING NEW SOURCES EMPLOYMENT. IN CURRENT ECONOMIC CRISIS, FAVORABLE CORPORATE PROFITABILITY ONLY JUSTIFIED IF PROFITS CHanneled TO PRODUCTIVE INVESTMENT, THUS FULFILLING SOCIAL PURPOSE. SECRETARY OF COMMERCE WOULD KEEP PRICES UNDER CLOSE WATCH AND TAKE ALL STEPS NECESSARY TO ENCOURAGE COMPETITION, CONTROL OLIGOPOLY AND AVOID EXCESS PROFITEERING.

5. PUBLIC SECTOR. KLEIN MENTIONED PUBLIC HEALTH, EDUCATION, JUSTICE, HOUSING, DEFENSE AND MANAGEMENT OF RETIREMENT SYSTEM AS ESSENTIAL PUBLIC SERVICES PROPERLY BELONGING TO STATE. HE POINTED OUT URGENT NEED FOR IMPROVEMENT OF SERVICES IN ALL THESE AREAS. HE SAID ARGENTINE ATTITUDE OF NOT PAYING TAXES CANNOT CONTINUE. GOA WOULD ADOPT MEASURES TO ASSURE PROMPT TAX COMPLIANCE AND TO PUNISH TAX EVADERS.

6. EXTERNAL SECTOR. KLEIN SAID IN MARCH ARGENTINA STOOD AT BRINK OF EXTERNAL DEBT MORATORIUM. EFFECT OF MORATORIUM WOULD HAVE BEEN DISASTROUS, HE SAID, BECAUSE IMPORTS WOULD HAVE BEEN SHUT OFF, THUS HALTING ECONOMIC ACTIVITY AND THROWING THOUSANDS OUT OF WORK. AS RESULT SERIOUSNESS GOA PROGRAM, CONSIDERABLE EXTERNAL FINANCING RECENTLY OBTAINED AND THREAT OF EXTERNAL PAYMENT MORATORIUM NOW ENDED. MOREOVER, HE SAID ARGENTINA NOW IN STRONGER BARGAINING POSITION TO NEGOTIATE NECESSARY NEW CREDITS.

7. OCCUPATION. KLEIN ADMITTED THERE WOULD LIKELY BE SOME TRANSITORY UNEMPLOYMENT IN MONTHS AHEAD. HOWEVER, HE SAID IT WOULD OCCUR PRIMARILY IN WEAK AND INEFFICIENT SECTORS, I.E. THOSE WHICH WOULD HAVE EXPERIENCED PROBLEMS NO MATTER WHAT POLICY IMPLEMENTED.

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8. RECUPERATION. TO STIMULATE ECONOMIC RECOVERY, KLEIN SAID GOA PROVIDING NEW INCENTIVES FOR AGRUCULTURAL SECTOR. EXPANSION AGRICULTURAL PRODUCTION WOULD PROVIDE ADDITIONAL FOREIGN EXCHANGE AND ALSO INCREASE DEMAND FOR INDUSTRIAL PRODUCTS. HE SAID GOA WOULD CONTINUE STIMULATING INDUSTRIAL EXPORTS, AND ANTICIPATED INCREASING INDUSTRIAL INVESTMENT. HE ADDED THAT RESTRUCTURING OF PUBLIC SECTOR, ALONG WITH STIMULATION

OF MINING AND ENERGY, WOULD ALSO HELP REACTIVATE ECONOMY.
HE SAID MONTHS AHEAD WOULD BE TOUGH, BUT DISASTER TOWARD WHICH
ECONOMY HEADING IN MARCH NOW AVERTED AND RECOVERY PROCESS
ALREADY UNDERWAY.

9. COMMENT. IT SIGNIFICANT TO NOTE THAT EMPHASIS OF ECONOMIC
TEAM IN LAST MONTH APPEARS TO HAVE SHIFTED FROM STIMULATION
OF PRODUCTION TO HALTING INFLATION. DEBATE NOW EVOLVING OVER
WHETHER ESSENTIALLY "MONETARIST" APPROACH OF GOA RESTRICTING
DEMAND EXCESSIVELY AND THROWING ECONOMY TOO STEEPLY INTO RECESS-
ION. SOME INDUSTRIALISTS HAVE EXPRESSED DISILLUSIONMENT WITH
ECONOMIC PROGRAM NOTING SHORT-TERM ANTI-INFLATION MEASURES
BADLY HURTING INDUSTRIAL SALES, INDUSTRIAL EXPORTS NOT ADEQUATELY
STIMULATED, AND PREFERENCE APPARENTLY TO BE GIVEN TO AGRICUL-
TURE IN PROMOTING ECONOMIC RECOVERY. REAL INCOME NOW AT LOWEST
LEVELS IN SEVERAL YEARS. THUS FAR, SITUATION REMAINS QUIET;
WORKER DISCIPLINE GOOD AND NOT MUCH LABOR UNREST NOTED. HOWEVER,
CONSENSUS IS THAT LABOR TROUBLE LIKELY BREW UP SEVERLY AROUND
JULY UNLESS GOA WILLING PROVIDE SOME ADDITIONAL SALARY RELIEF
BY THAT TIME.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: POLICIES, SPEECHES, ECONOMIC PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 14 MAY 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ShawDG
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976BUENOS03235
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760189-0251
From: BUENOS AIRES
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760555/aaaabuuk.tel
Line Count: 136
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION ARA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 76 BUENOS AIRES 3103
Review Action: RELEASED, APPROVED
Review Authority: ShawDG
Review Comment: n/a
Review Content Flags:
Review Date: 09 JUL 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <09 JUL 2004 by ElyME>; APPROVED <28 OCT 2004 by ShawDG>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ECONOMIC SECRETARY GUILLERMO KLEIN TALKS ON GOA ECONOMIC POLICY
TAGS: EFIN, EGEN, AR, (KLEIN, GUILLERMO KLEIN)
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006